

City of Wilmington
Underwriting Guidelines for Rental Rehabilitation/Rental Incentive Loan Program
Revised September 4, 2018 (*last revised March 14, 2013*)

Background

The City of Wilmington has identified community development and housing needs in the Five Year FY2018-2022 Consolidated Plan. Affordable rental housing, especially for special populations, is recognized as a high priority need in that plan. In response the City offers a Rental Rehabilitation/Rental Incentive Loan Program for the renovation, purchase/renovation or reconstruction, or new construction on in-fill lots of rental housing units for lower-income households. The program is designed to provide funding for small scale and scattered site projects.

Priority is given for the rehabilitation/reconstruction of blighted vacant housing units for rent as permanent supportive housing for special needs populations as defined by HUD to include elderly, frail elderly, persons with disabilities (mental, physical, developmental, persons with HIV/AIDS and their families), persons with alcohol or other drug addiction, victims of domestic violence, and any other categories the jurisdiction may specify in the Consolidated Plan. In addition to HUD special needs populations, the City of Wilmington Consolidated Plan identifies homeless individuals and ex-offenders as populations in need of assistance.

The source of funds for the loans shall vary annually depending upon the availability of federal Community Development Block Grant (CDBG) and HOME Investment Partnership Program, General Funds and Loan repayments. Borrowers are subject to all applicable local, state and federal regulations related to the source of funds.

Eligible Applicants

Non-profit and for-profit affordable housing developers are eligible to apply for loan funds.

Application Fee

A non-refundable application fee of \$250.00 per unit payable to the City of Wilmington is required at the time of application. However, the application fee may be waived if the applicant is providing permanent supportive housing for rent to special needs populations.

Property Requirements

The intent of the program is to bring badly deteriorated or dilapidated housing units back into the rental housing stock; therefore, we anticipate all potential units will be vacant. Since it is the policy of the City of Wilmington's Community Development Division to prevent displacement, occupied properties are not eligible for funding.

Other Property Requirements:

- Property may not be located within a Special Flood Hazard Area (100 year flood zone).
- Units constructed prior to 1978 will be assessed for lead-based paint hazards and may require abatement of lead hazards by a certified contractor.

- The Secretary of the Interior's Standards for Rehabilitation may be imposed for units deemed historic.
- An environmental review is required for each property.

Maximum Loan Amount

The maximum loan is \$125,000 per unit. All units within a building must be renovated for rental occupancy to lower income households including special needs populations as defined herein.

Loan proceeds may be used for acquisition, renovation hard costs, and for reasonable soft costs necessary to close the loan. A contingency allowance of 10% of the total renovation cost is required. Loan proceeds may not be used to pay property taxes or other liens of record.

Loan Terms

Loans shall be made a fixed interest rate of zero (00.00%) percent. Monthly payments shall be amortized over a period not to exceed 360 months. The principal balance shall be due in full (balloon payment) after 240 months. Borrowers providing permanent supportive housing for special needs populations may qualify for a deferred/forgivable loan or a loan repayment schedule based on cash flow if supported by pro-forma operating budget for the project.

Loan Agreement

- Borrower agrees to comply with the terms the Loan Agreement. The agreement requires that borrower maintain all units as affordable rental housing for lower income tenants for a period of fifteen (15) to twenty (20) years depending on funding source requirements.
- Rents paid by tenants shall not exceed the then current HOME Program Rents as calculated by the U.S. Department of Housing and Urban Development for Wilmington, NC.
- Borrower agrees to permit annual inspections of each unit by the City of Wilmington, and also agrees to maintain the improvements in good condition and to promptly rectify any deficiencies found during the annual inspection.
- Borrower agrees to annually provide the City of Wilmington copies of executed lease agreements for each unit.
- Failure of the borrower to comply with the terms of the Loan Agreement shall be deemed a default in the loan terms, resulting in acceleration of the debt. In addition, there will be a recapture of interest at the rate of 10.00% per annum from the date of loan closing through the acceleration date.

Developer Capacity and Fiscal Soundness

Borrower's developer capacity and fiscal soundness will be evaluated by an examination of the following:

- Recently completed comparable projects, and
- Experience in producing and managing small scale and scattered site affordable rental housing.
- Experience successfully administering and managing local, state, and/or federal funds (CDBG and HOME).
- Banking and business/professional references.
- Adequate net worth and credit to take on the project; and, if applicable,
- Minimum credit score of 680 for LLC, Sole Proprietor or Partnership applicants.

Demonstrated Market Demand

Borrowers shall provide evidence of demand for project via applications/waiting list or analysis of pool of potential tenants in eligible income range. Borrowers shall provide list of comparable rental units within the geographic area of the proposed project.

Tenant Selection

Borrowers shall submit a tenant selection plan describing the target tenant population, including, if applicable, special populations to be served. The tenant selection plan shall describe how the property will be marketed, the criteria for tenant selection, the target household incomes, the basis for determining rent, and, if applicable, supportive services to be provided. Borrower shall provide for each unit a copy of the executed lease agreement to the City of Wilmington. Any proposed change in rent or tenancy shall be promptly reported to the City of Wilmington.

Borrower shall ensure that all units are marketed in a manner to affirmatively further fair housing practices. The Equal Opportunity/Fair Housing logo shall be used in all advertisements seeking tenants. Borrower also agrees not to discriminate against tenants solely because they receive rental subsidy assistance or are qualified to receive such assistance.

Development and Operating Budget Pro-forma

Borrowers shall submit detailed budgets for the construction and on-going operation of the project as affordable rental housing. Borrowers shall submit a rental pro-forma including: project summary, development budget, construction cash flow, operating budget, operating cash flow. An excel spreadsheet template is available upon request as part of the loan application.

Borrower's development and operating financial pro-forma will be evaluated by an examination of the following:

- Reasonable costs - defined as cost estimates that are supported by examples of comparable costs within the area, and costs that would be typical in a project serving the defined market area and population.
- Developer fees not to exceed 20%.
- Vacancy rates, including physical and economic, no less than 12-15%, unless market analysis demonstrates lower vacancy rate is realistic based on survey of competing properties experience.
- Rent revenue is based on lesser of applicable HOME rent or "market" rent for area. Rent is competitive and viable market is identified, including waiting list of potential renters.
- Operating costs projections reflect higher costs associated with operating and managing scattered site and/or small scale rental, and should be based on comparable projects or documented estimates.
- Ongoing contribution to replacement reserves is included in the operating budget at \$500-750 per unit annually.
- Loan-to-value ratio after renovation shall not exceed 90%.
- Operating projections show annual increase in rent revenues at no more than 2%.
- Operating projections show the annual increase in expenses at no less than 3.5% annually.
- Operating margin 5-12%, or debt service coverage ratio of no less than 115%. The operating margin is the ratio of cash flow to total operating costs, reserve deposits, and any debt service

payments. For loans with repayment to the City, the debt service coverage ratio will be considered. The debt service coverage ratio is the ratio of net operating income to total debt service.

Plans, Specifications and Rehabilitation Standards

Borrowers shall provide site specific development proposals that include adequate design information including, but not limited to, locations map, site zoning determination, scaled site plan, building elevation and floor plan drawings, material specifications and energy efficiency elements.

Borrower's plans and specifications will be evaluated by an examination of the following:

- Energy efficiency –construction features that aid in energy efficiency. Use of Energy Star, System Vision or other approved green building program, debris recycling, and water conservation strategies.
- Accessibility- full ADA accessibility or accessibility features, such as, at-grade or ramped entrance to main floor or the capability to easily install a ramp; all doorways and passageways on the main floor at least 32" wide; and a bathroom or half-bath on the main floor that will accommodate a wheelchair.
- Utilities- water, sewer, and electric service must be available with adequate capacity to serve the site. Sites should be accessed directly by existing paved, publicly maintained roads.
- Site Appropriateness- site should be zoned for proposed development, compatible with adjacent land uses and primary market information. HOME funded multi-family new construction projects must meet the site and neighborhood standards of 24 CFR 983.6(b).
- Design -The extent to which the design uses multiple roof lines, gables, dormers and similar elements to break up large roof sections, the extent to which the design adds visual appeal to the building elevations, the level of detail that is achieved through the use of porches, railings, and other exterior features.
- Interior considerations include: spacious room layouts, kitchens with an abundance of counter top working space and cabinets, number of bathrooms reflecting market norms, and storage space other than bedroom closets.
- Quality materials include low maintenance, high durability, energy efficient products and quality interior and exterior building components.
- Site design - characteristics of good site design include attractive entryways, connected streets, consistent building setbacks, sidewalks, appropriate amenities and accessible open space areas.

Bidding and Contractor Selection

Developers demonstrating capacity and experience with comparable projects may serve as project manager. Bids shall be solicited from North Carolina licensed contractors. If lead-based paint is an issue, contractors are required to have training in accordance with HUD and EPA requirements. Davis-Bacon labor standards and other federal regulations may apply to certain projects. The owner may select any responsible bidder who is not on the federal list of debarred contractors.

Construction Escrow

Loan funds allocated for renovations and improvements to the property will be held in a construction escrow account managed by the City of Wilmington. Funds to pay for construction activities may be drawn down as each phase of the project is completed. No construction activities may begin until a fully executed Proceed Order is issued.

Application Review and Approval

Using these guidelines presented herein, loan application packages shall be evaluated by a team of Community Development staff members including, but not limited to, Senior Accountant for CDBG/HOME, Compliance Specialist, Rehabilitation Specialist, Housing — Community Development Analyst, Community Development & Housing Planner, and other staff members as may be deemed appropriated by the Community Services Director. Applications meeting the guidelines shall be submitted to the City Manager for approval.